

NEXT Co., Ltd. (2120)

Edited Transcript

Earnings Briefing for the Nine- month Period Ended December 31, 2016

Date / time: February 14, 2017 / 11:00AM JST

Venue: NEXT headquarters

Corporate Participants:

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New Condominiums and Real Estate Investment Business Division and

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Kazuhiko Abe, *Managing Officer, General Manager of Group Company Business Development Department*

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Presentation

Kazuhiko Abe, *Managing Officer*

The consolidated sales revenue for the nine-month period ended December 31, 2016 (“third quarter”) was 20,864 million yen, up 14.8% year on year, and EBITDA was 3,821 million yen, up 6.3%, mainly due to increased sales in the domestic business.

The cost of sales increased by 706 million yen, up 47.9%, due to sales increase of Lifull Marketing Partners (“Lifull MP”), which we began to consolidate in July 2015, but this increase was expected.

Selling, general and administrative expenses increased by 1,761 million yen, up 13.5%, mainly due to the following three causes: an increase in personnel costs due to an increase of 200 employees (on average for the current period) from the previous year; an increase in advertising expenses due to a new commercial started in October, which contributed to increased recognition and is expected to lead to a future response; and an increase in other items of selling, general and administrative expenses including an increase in system usage fees due to an increase in the number of employees and companies and an increase in the costs for the relocation of the head office scheduled for April.

In terms of the expense-to-sales ratio, the costs and other selling, general and administrative expenses increased by 2.2 points due to the consolidation of Lifull MP, but this increase was expected.

About 70% of the Company’s sales revenue came from the Domestic Real Estate Information Services business, and about 65% of this revenue came from the Rental & Real Estate Sales business. The sales of these core segments were 9,482 million yen, up 13.7%. The number of affiliated stores as of December increased by 3,506

stores over the course of a year, showing strong performance. In the market of new construction, the number of units of condominiums sold fell below the results for the previous year; however, marketing efforts led to a 14.5% increase in the average number of listings, resulting in sales of 3,631 million yen, up 3.0%. Custom-built Homes & Renovations sales were 940 million yen, up 64.7%, showing good performance. In others, HOME'S nursing care showed strong sales of 677 million yen, up 40.2%.

Domestic Services for Realtors saw a substantial increase in sales of Lifull MP, resulting in sales of 3,251 million yen, up 49.1%.

The sales of the Overseas business were 2,325 million yen, decrease of 12.0% year on year, mainly due to the impact of exchange rates.

The sales of Others were 555 million yen, up 26.8%, owing to steady growth of the subsidiaries of Lifull.

Of the total income of 3,122 million yen, the income of Domestic Real Estate Information Services was 2,868 million yen. Although marketing costs, etc. increased, strong sales contributed to a 15.9% increase in total income.

The income of Domestic Services for Realtors decreased by 108 million yen due to transfer of the software in progress to costs upon the completion of its development.

Overseas saw a reversal of the provision for bonuses for Trovit; however, decreased sales due to a change in exchange rates and an increase in costs, such as personnel costs and advertising expenses, led to income of 276 million yen, decrease of 42.7%.

Quarterly data shows sales growth; however, an increase in costs and selling, general and administrative expenses, mainly an increase in personnel costs due to an increase in employment and an increase in advertising expenses due to the input of the new TV commercial for HOME'S from October, resulted in a 32.7% decrease in EBITDA.

Although assets decreased due to the impact of exchange rates, there were no material changes.

The balance of goodwill was 86 million yen for Littel, 8,467 million yen for Trovit and 251 million yen for Lifull MP. The depreciable assets (PPA) of Trovit and Lifull MP were 972 million yen.

The costs for the relocation of the head office increased. This increase resulted in an increase in depreciation and amortization and payments for the purchase of property, plant and equipment of a little over 100 million yen. On the other hand, various cost reductions contributed to an increase in cash and cash equivalents of 300 million yen for April to December, resulting in 6,200 million yen.

The achievement ratio was 65.9% for sales revenues and 65.8% for EBITDA. Because the fourth quarter should be a busy period, we will continue our efforts toward achieving the forecasts on a full-year basis.

Takashi Yamada, *Director*

Our company was founded on March 12, 1997. We will celebrate the 20th anniversary of the Company's foundation in March 2017. In our business management, we have always had a desire to "create a mechanism for listing all the information on real estate" that we have had since the foundation of the Company. Considering the

first ten years as the stage of development and the ten years from listing as the stage of expansion, the coming ten years will be positioned as the stage of global expansion. We wish to aim for more growth by taking on the challenge of the global market.

To that end, we recognize that our most important task is to secure overwhelming dominance in the domestic real estate field.

Domestic Real Estate Information Services saw a steady increase in the number of affiliated stores in the Rental & Real Estate business, which hit a record high of 21,944 stores. We can see steady progress toward the achievement of the medium- to long-term target of 40,000 stores. In addition, with this progress, the total number of property information listings reached 8,150,000 properties in December, showing favorable performance.

Regarding the market environment in the major fields of the domestic real estate business, we forecast stability without change for rentals, expansion for real estate purchases and renovations, and shrinkage for new constructions. However, we also consider that we will be able to expand our share further by accelerating the cycle of conducting aggressive investments in each field to escalate reaction, increasing sales and appropriating the increased profits for reinvestment.

As for reinvestment, we intend to aim to achieve both the addition of new functions and services for the site and the expansion and improvement of the concierge desk and other functions to improve the customer experience for end users and clients, and to increase the number of users of the services through advertising and marketing.

We consider the most important thing for improving customer experience at present to be initiatives for mobile devices.

Our company has been working internally on shifting to smart/mobile devices for the past several years. Currently, about 70% of access to HOME'S is made via mobile devices. During this quarter, we took a range of actions to strengthen the services for mobile devices to render them easier for all users to use.

From November 2016, we launched the service for inquiry via LINE. Through our company's becoming the SME partner of LINE and increasing the number of realtors with which inquiries can be made without the need for registration, we want to increase convenience for users.

For the Android app, we have added new functions for finding the first station on a line and the express stations without the need to have knowledge of the location, and for easily seeing the environment around the property with the street view.

As a result of the continual refinement of the product, the HOME'S Android app was chosen as one of the best local apps under the "2016 best apps" selected by Google. It also won first place in the smartphone site ranking for rental property information of Gomez. In particular, its stability, reliability and convenient functions and services are highly recognized.

The functions making the best use of abundant information online are directed at users who are looking for a property themselves. To meet the needs for consultation from users, including those who wish to consult with

someone from the first stage of looking for a property, we have promoted the strategy for the Omni-channel from this fiscal year.

We launched a physical counter called “*HOME’S Sumai-no-madoguchi*” or “HOME’S Counter.” Currently, five stores including Tressa Yokohama and Unimo Chiharadai are operated. We have heard that Tressa Yokohama and Unimo Chiharadai, both of which opened recently, are seeing increases in inquiries thanks to their locations, crowded with people in a shopping mall. We are confident that we will be able to meet your expectations in future.

In work for ReTech (real estate tech), which is the field in which we are strong, we have continued to undertake development to expand the area covered by HOME’S Price Map. In March, the areas of Aichi and Fukuoka will be released.

We also incorporated a system for detecting mismatched images among the images of properties of HOME’S by utilizing deep learning. Not only the number of images but also the rank algorithm for evaluating the diversity of such images are adopted for HOME’S. We intend to make efforts to increase the accuracy.

With respect to marketing, we launched a new TV commercial in October last year. The concept of the new commercial is that “Homes -kun, the master detective in the search for homes, works hard for people who are concerned about homes.” Since its launch, the recognition of Homes-kun has been rising sharply. Along with this trend, the brand recognition and the rate of use of HOME’S have also been growing. We are distributing the LINE stamp of Homes-kun for a limited period until March 29. Please check it out.

In the renovation market, which is a growth field, we consider that our company will be able to continue to expand its scale as the Japanese Government sets a target of 12 trillion yen, which is double the current market scale, by the year 2025.

We have already started to expand the business, mainly through the introduction of renovation companies. In October 2014, we changed the business model from charging for an inquiry to charging upon the conclusion of a contract. Of the process from reaction, making a bid, and on-site survey to the conclusion of a contract, the problem was how to avoid neglecting to make a bid in response to a reaction from the site, namely disregarding the reaction. Despite our various efforts, such as an increase in affiliated stores and incentives for affiliated stores, the problem of disregarding the reaction was not fully solved. Consequently, we founded Lifull Remodel, which undertakes prime contract work for renovation, as the joint venture with Kuwazawa Corporation. With the help of Kuwazawa Corporation, which has strength in construction work, we wish to achieve the maximum synergy with the business of the introduction of renovation companies to achieve so-called vertical start-up.

In Domestic Services for Realtors, one year has passed since the integration of the sales team of New Houses and Condominiums of HOME’S and Lifull MP in October 2015. As compared with the initial state, substantial growth was seen with a revenue increase of 42%, an increase in the number of business transactions of 30% and an increase in the number of employees (on average; including those seconded from NEXT) of 65 persons, which is the foundation of competitiveness of the consulting business. Despite the tough market conditions for New Houses and Condominiums, we intend to continue our efforts to expand our share as the best partner for the condominium business by joining forces with Lifull MP.

In addition, NabiSTAR, the DMP service specializing in the real estate industry, saw a steady increase in the number of companies introducing it. In addition to the real estate industry, we have increasingly received inquiries from the automobile, household appliances and other industries in which the service is likely to be suitable. We consider that we may be able to achieve new collaborations and systems in future.

The overseas business saw Trovit's expansion into Costa Rica, Kenya, Luxemburg, Panama and Uruguay, resulting in its having business in a total of 51 countries. Trovit already began a new period from January, continuing to focus on 1) strengthening of SEO to expand into various countries, 2) strengthening of marketing activities and 3) strengthening of the services for mobile devices in conducting business. We intend to achieve the early recovery of traffic for further growth.

In the Overseas business other than Trovit, Lifull Australia, which was launched in October 2015, experienced substantial growth during the past year. It was launched early by making the most of Trovit's ability to attract customers as Trovit entered the market there ahead of Lifull Australia. We expect that the positive spiral of the platform for gathering site traffic, further increases in the number of properties and further increases in transfers and attracting customers will begin to have an impact, leading to an increase in the number of fee-paying service members in future.

On April 1, 2017, the company name will be changed to "LIFULL Co., Ltd." and the head office will be relocated to Kojimachi, Tokyo. We will work on the mission to make the Life of all people Full, with the aim of **"becoming the best life-event database and solution company in the world."**

Questions and Answers

Q1. There were a range of temporary costs incurred for the relocation of the head office and other reasons during this fiscal year. What will become of the costs for the next fiscal year?

A1. (Kazuhiko Abe) There will be no accelerated depreciation for fittings upon relocation for the next fiscal year. However, depreciation will be incurred for the new building, resulting in a slight increase from this fiscal year. The strategy for the rebranding is now under consideration, and we cannot provide an answer about the impact. We will place importance on the first half period. We also intend to enhance the brand strength of the new company name.

Q2. I understand that the Real Estate sales business is weak in some respects as compared to the competitors. I would like to ask you about the future strategy or plan, if any.

A2. (Takashi Yamada) We intend to strengthen the distribution of existing houses. The site will be refined as previously planned, and in particular in accordance with the guidelines of the Ministry of Land, Infrastructure, Transport and Tourism regarding strengthening the inspection of the building evaluations, we will contribute to

the spread and stimulation of this action by displaying the evaluation reports on the HOME'S site, preferentially providing information on the properties for which building evaluations have been conducted and proceeding with the visualization of information to ensure safe transactions.

(Toshio Kazuno) For real estate investment, upon the transfer of the International Real Estate Investment Business department of Marimo Co. Ltd. in October last year, we launched a business for overseas investors who are interested in properties in Japan. We hold overseas events aimed at the wealthy class in Hong Kong, Taiwan, Singapore and other Asian countries, and refer customers to developers. In future, we wish to increase the gateways both on the web and physically by linking to the site, and create a flow to increase the likelihood of matching with properties.

Q3. The growth of Lifull MP accelerated during this fiscal year. I think that the results of what you have been doing have contributed to this. What specific points are recognized in the sales increase?

A3. (Toshio Kazuno) Particularly in terms of the advertising strategy for newly constructed condominiums, the paper media used to have greater importance; the ratio of total advertisement budget used to be 70%. However, upon the digital shift, paper media have been replacing with the web, currently the ratio to total ad budget is about 60%. Accordingly, the accuracy of impact analysis such as the cost effectiveness of web advertising has become higher and the degree of demand for such analysis has increased. We engage in the comprehensive consulting business from the dispatch of persons and the proposition of all web advertising to the analysis of cost effectiveness based on the results of this proposition. It is not only the impact of the Company's own media for the past one month that has become greater, but also the accuracy of impact analysis has been improved as compared to other media and properties. We consider this to be the main factor.

Q4. I think that the fixed costs for analogs such as the establishment of the HOME'S Counter and the prime contractor for renovations are being weighted on the Company. What impact do such cost increases have annually? How will you secure a return on investment in the future, including the improvement of sales and the rate of return on HOME'S?

A4. (Kazuhiko Abe) We have currently five stores of HOME'S Counter. The costs will be controlled by checking the effects in future. The prime contractor has also just been launched. We will take appropriate actions by checking the progress going forward.

(Takashi Yamada) You are probably concerned that the launch of the physical counter, prime contractor and other business may cause less profitability than that of the media and thereby lead to the worsening of overall profitability. Speaking of the relationship between master and servant in business, we consider that they belong to the area of servant, complementing the media. They may temporarily cause profitability to worsen, but we ultimately intend to secure a return by increasing the unit amount for the transfer of customers in media.

Q5. Given the current situation, it will be difficult to achieve the earnings forecast for the current fiscal year. Will

you use the sales promotion expenses as planned or control them in some way, keeping watch on the change in sales?

A5. (Kazuhiko Abe) In terms of the earnings forecast for the current fiscal year, we are now considering the amount of sales that can be increased and the amount of costs to be reduced. The relocation of the head office and the change of the brand are major events, so we are considering the landing point (appropriate targets) by taking the medium- to long-term strategy into account.

Q6. Regarding the response in the Rental business for October to December, the TV commercials were aired and the costs increased. There should have been a greater response. The fact is that the growth rate of Rental for this quarter dropped a few points from the previous quarter. What response is expected for the following quarter?

A6. (Takashi Yamada) Because the TV commercials were not aired for the third quarter of the last fiscal year, it appears that high costs were incurred for this quarter only. However, the costs incurred are not as high on a full-year basis from an annual viewpoint. The recent response was that homes-kun is being increasingly recognized, and accordingly the rate of brand use has also been growing. Advertisements are divided into those with a short-term response and those for which it takes time to receive a response. Mass media advertisements fall under the latter. There is also the approach of ad stock. The effect of the commercials should slowly begin to appear, and this effect should continue to manifest itself in future.

Q7. How should the actual results of Trovit in Overseas be analyzed, including the impact of the exchange rate?

A7. (Kazuhiko Abe) The sales of Trovit varied from region to region affected by the exchange rate, but they were not too bad. Although the market in Europe showed a downward trend, some countries in Central and South America and Asia experienced growth. America is expected to see growth from now on. We will take appropriate actions for each country, including regional efforts to strengthen marketing activities and SEO, and strengthen the services for mobile devices. With these measures, we intend to recover cruising speed again.